Anadarko Update

Reminder of the Tronox Background

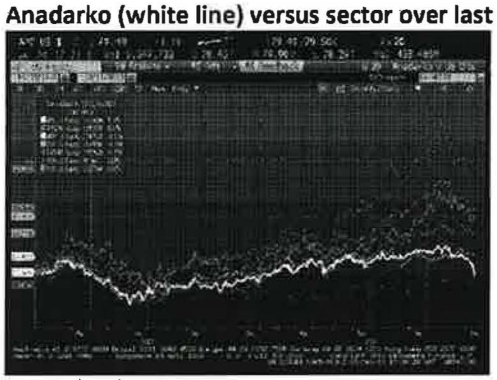
Anadarko acquired Kerr McGee in 2006. Prior to this, Kerr McGee management spun off and listed separately its Titanium Dioxide business, known as Tronox. As a result of its environmental liabilities, Tronox was undercapitalised and subsequently went bankrupt. Anadarko (now the parent co of Kerr McGee) was sued by Tronox shareholders claiming back their lost equity and environmental clean-up costs. The case commenced in early 2012.

Tronox is now priced in

Anadarko's stock performance has considerably lagged the sector over the last 24 months since the Tronox trial began. This is despite 12 consecutive quarterly earnings beats (Q3 2013 being an exception due to severe flooding in Colorado) and a raft of positive announcements on the exploration and asset monetisation side that went unrewarded (see below).

With last week's announcement that APC is liable for \$5bn - \$14bn in damages for the bankruptcy and environmental clean-up costs of Tronox, the stock is arguably pricing in a "worst case" scenario.

Anadarko (white line) versus sector over last 2 years



Source: Bloomberg

PLAINTIFF'S EXHIBIT

CASE NO.

EXHIBIT NO. 4

The most recent buy side survey (source: Credit Suisse) from summer 2013 showed that \$4bn was priced into Anadarko's stock for Tronox. However, Anadarko has underperformed the sector by 10% since the start of November, firstly on market fears that the Tronox ruling would be unfavourable and then on last Friday's actual outcome when the stock fell 6% intraday.

Anadarko (white) versus sector since start November 2013

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Source: Bloomberg

This 10% underperformance is equivalent to a further \$9.5 per share or \$4.75bn of market cap meaning that \$9bn is now priced into the stock for Tronox liabilities, the mid-point of the potential \$5-14bn liability.

Appeal and Tax Relief Reduces Potential Liability

The \$14.2bn represents a maximum liability that Anadarko will pay for Tronox and there is a strong chance that this will be lowered on appeal. Furthermore, appeal is likely to take several years so the

PV of the actual liability paid will be reduced by the company's cost of capital. It is also possible that the liability will be deemed non-punitive, enabling Anadarko to offset the amount against tax. Assuming a 35% corporate tax rate, 6.5% cost of capital and 2 year appeal period, the PV of the full $14.2bn liability would be reduced to $8.1bn. Assuming zero tax relief, the PV would be $12.5bn.

Anadarko has sufficient capital and liquidity to continue business as usual

The Tronox liability does not pose an existential threat to Anadarko. This is not a Macondo type liability where the upside to claims is unknown. $14.2bn represents a worst case that Anadarko can appeal against. However, in the worst case, Anadarko has sufficient capital and liquidity to meet this liability. The current cash on balance sheet is $4bn which will increase to $6bn once the after tax proceeds from the 10% Mozambique farm down to ONGC come through in early 2014. In addition, Anadarko has a $5bn undrawn credit facility. The company also owns 91% in listed midstream company Western Gas Partners. Assuming it sells this down to 51% to maintain control and takes a 5% haircut on the placing, this would raise a further $3.3bn. This takes the total available cash to $14bn that Anadarko could easily access. The Tronox liability therefore does not require a reduction in capex spend which would slow down the company's production growth. Anadarko's growth and upcoming mix improvement therefore remains intact.

The Market is overlooking 2 years of enormous value creation

Anadarko has created substantial value over the last 2 years through a number of measures that have not been reflected in the stock price, which has remained static over the period.

1) **Mozambique**
   Anadarko has discovered around 50 Tcf in its Area 1 licence in the Rovuma Basin and has agreed with ENI (operator in neighbouring Area 4 licence) to proceed with an LNG facility. First LNG is expected by the end of the decade. Anadarko recently farmed down 10% of its 36.5% stake in the asset for $2.6bn pre tax. This values its entire stake at $9.5bn or $19/share.

2) **Niobrara Play in the Wattenberg Field**
   Anadarko has embarked on an intensive horizontal drilling program in the Niobrara play of the Wattenberg (DJ Basin). The company estimates a 4,000 well horizontal drilling inventory with a $6m NPV per well. For conservatism, if we assume 3,000 horizontal wells can be drilled with a lower price deck resulting in $5m NPV per well, this gives $15bn of total NPV. Assuming a 10 year drilling program with median well drilled in year 5, this gives an NPV today of $11bn or $22/share.

3) **US Gulf of Mexico – Shenandoah Discovery**
   Anadarko successfully appraised the giant Shenandoah field early in 2013, encountering 1000 feet of net oil pay making it one of the largest discoveries in the US GoM to date. While drilling is on-going, this is already of sufficiently commercial scale (500m+ barrels) to develop. Given the company's 30% working interest and assuming $20 per barrel NPV, 750m barrels of reserves and 5 years to development, this asset is worth $3.3bn to Anadarko or $6.6/ share.

4) **Western Gas partners**
   Anadarko listed its midstream MLP, Western Gas Partners, in December 2012 and retained a 91% stake which has a current market value of $7.9bn or $16/share.

These four successes alone have generated value of $32bn or $63/share. This is equivalent to 80% of Anadarko's current market cap or 63% of the enterprise value. Over this period, the market cap has remained static. I believe that with the worst case Tronox liability now known about and fully discounted in the share price, Anadarko's equity is set for a period of catch up with other North American E&Ps. While the Tronox "overhang" has kept many investors away, the stock now becomes fully investable for the first time in 2 years.

[SHAPE * MERGEFORMAT]
Source: Sarasin

What is a fair value for Anadarko's stock?

While the market currently favours operating cash flow multiples as a valuation tools for E&Ps, I believe that an NAV approach is appropriate for Anadarko given the company has created so much tangible value in longer cycle assets that currently make no contribution to operating cash flow. BAML's NAV (which uses strip commodity prices) gives a $105/share NAV (including 10% discount to SOTP) and factoring in a full $14.2bn Tronox liability partially offset with tax relief. This implies 30% upside to the current share price.

$5.2 billion scenario

PV1		$mm	$/Sh
US PDP		$27,825	$55.21
International PDP		6,355	$12.61
Total PV1		34,180	$67.82
Exploration			
Brazil	1,857		$3.68
US GoM			
Vito		1,090	$2.16
Lucius		1,987	$3.94
Lucius Carry		556	$1.10
Shenandoah		3,563	$7.07
Heidelberg		1,614	$3.20
Heidelberg carry		860	$1.71
Samurai		417	$0.83
Total GOM		10,087	$20.01
Ghana		4,000	$7.94
Mozambique		8,557	$16.98
Total Exploration		$24,500	$48.61
PV2			
Marcellus		$912	$1.81
Eagleford		$2,383	$4.73
Haynesville		$2,024	$4.02
Permian		$1,487	$2.95
GNB		$2,456	$4.87
Niobrara		$10,120	$20.08
Total PV2		$19,378	$38.45
WGP (as of Dec 4th, 2013)		8,412	$16.69
Total Other Assets		$8,412	$16.69
SG&A		($7,475)	($14.83)
Net Debt / Minority interest		($11,267)	($22.36)
Total NAV		$67,729	$134.38
Tronox liability		($5,150)	($10.22)
Net to Equity		$62,578	$124.16
10% discount to now		$56,220	$111.75
Shares			504

Value if liability is tax deductible (35% tax rate)		
Total NAV	$67,729	$134.38
Tronox liability	($3,348)	($6.64)
Net to Equity	$64,381	$127.74
10% discount to now	$57,943	$114.97
Shares		504

$14.2 billion scenario

PV1		$mm	$/Sh
US PDP		$27,825	$55.21
International PDP		$6,355	$12.61
Total PV1		34,180	$67.82
Exploration			
Brazil	1,857		$3.68
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Total Other Assets		$8,412	$16.69
SG&A		($7,475)	($14.83)
Net Debt / Minority interest		($11,267)	($22.36)
Total NAV		$67,728	$134.38
Tronox liability		($14,165)	($28.11)
Net to Equity		$53,563	$106.28
10% discount to now		$48,206	$95.65
Shares			504

Value if liability is tax deductible (35% tax rate)		
Total NAV	$67,728	$134.38
Tronox liability	($9,208)	($18.27)
Net to Equity	$58,521	$116.11
10% discount to now	$52,669	$104.50
Shares		504

Source: BAML

Even on earnings multiples, Anadarko is now looking cheap - especially relative to the E&P universe.

Ticker	Name	EV/BE EBITDA Curr Yr	EV/EBITDA Nxt Yr	BEst P/E Curr Yr	Est P/E Nxt Yr	Dvd Yld
Average	Average	6.4	5.7	18.8	15.7	1.3
APC US Equity	**ANADARKO PETROLEUM CORP**	5.4	4.7	18.4	15.1	0.6
COP US Equity	CONOCOPHILLIPS	4.5	4.5	11.9	10.9	3.8
DVN US Equity	DEVON ENERGY CORPORATION	5.4	4.3	14.1	10.2	1.4
SWN US Equity	SOUTHWESTERN ENERGY CO	7.7	7.0	18.8	17.7	0.0
NBL US Equity	NOBLE ENERGY INC	7.8	6.2	21.8	16.9	0.7
EOG US Equity	EOG RESOURCES INC	6.3	5.5	19.6	17.6	0.4
CHK US Equity	CHESAPEAKE ENERGY CORP	6.6	5.9	15.8	12.5	1.0
XOM US Equity	EXXON MOBIL CORP	5.8	5.5	13.1	12.5	2.5
MRO US Equity	MARATHON OIL CORP	3.3	3.3	12.0	11.6	2.0
APA US Equity	APACHE CORP	3.8	4.2	10.5	11.8	0.9
CVX US Equity	CHEVRON CORP	4.4	4.1	10.5	10.1	3.2
PXD US Equity	PIONEER NATURAL RESOURCES CO	11.6	10.0	39.6	33.7	0.0
OXY US Equity	OCCIDENTAL PETROLEUM CORP	6.3	5.1	12.9	12.6	2.7
COG US Equity	CABOT OIL & GAS CORP	13.1	9.0	50.0	27.8	0.1
HES US Equity	HESS CORP	4.3	4.8	13.5	14.4	0.7
XEC US Equity	CIMAREX ENERGY CO	6.7	6.2	17.7	16.0	0.5

Source: Bloomberg